

## H-3107-1 - CONTINUATION, EXTENSION, OR RENEWAL OF LEASES

Glossary of Terms

- A -

actual drilling operations: the drilling of a well with drilling equipment to a potentially productive oil or gas horizon starting with spudding. This definition does not include such preparatory or preliminary work as grading roads and the well site, moving or rigging up equipment, or drilling the "rat" hole. While the phrase "actual drilling operations" also includes the necessary testing, completing, or equipping of a well, it cannot be construed as having the same meaning as "reworking operations". Within the oil and gas industry, the common usage of the phrase "drilling operations" refers to the actual drilling and completion of a hole with a string of drill tools and could include swabbing, bailing, sand fracturing, etc., as operations.

C

continuation by production: the status of a lease after the primary or any definite extended term has passed and during which the lease has a well capable of producing oil or gas in paying quantities. However, both in common usage and in case law, this period is also often referred to as an extension by production. In the case of a lease eliminated from a storage agreement, the continuation of the lease must be by production of oil or gas not previously produced.

cost of marketing the product: the normal or usual handling, treating, measurement, and transportation costs that an operator could be expected to pay to handle the leasehold production to the point of sale. Such costs would not include abnormal or unreasonable charges, such as reconstruction of a pipeline destroyed by fire, or a landslide, or purchase of a truck.

D

date of completion: date the well is capable of production in paying quantities and is equipped to produce hydrocarbons to the surface.

diligent operations to restore paying production: operations that are conducted in such a manner as to be bona fide efforts which a prudent operator would be expected to make to restore paying production to the leasehold or communitized area. Generally, no more than 60 days can elapse between cessation of one operation and commencement of another in order to qualify as reasonable diligence.

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E

expiration: the lapsing or end of a lease by nonoperational conditions, such as the end of the primary or any extended term, or for failure to comply with a 60-day notice to produce from a lease which is capable of production. Both in common usage and in case law, the word "expiration" often is used interchangeably with the word "termination." (See "termination.")

extension: normally any period of a lease after the primary term during which the lease continues for reasons other than capability of production in paying quantities. However, the continuation of a lease after the primary term by reason of production is often referred to as an extension by production, both in common usage and in case law. Extensions are normally for a specific period of time. Extensions are granted for operational reasons related to drilling and production conditions as described in this Handbook Section and Manual Section 3180, and for nonoperational conditions as described in Manual Sections 3103 and 3105.

F -

first production memorandum: a memorandum prepared after a well is completed for oil and/or gas production, which represents the first production, actual or allocated, from the respective lease, unit, or communitization agreement. The memorandum is to provide the full particulars concerning the well and, if possible, the date of first production resulting from a determination that the well is capable of producing leasehold substances in paying quantities. If such a determination is not possible, a preliminary memorandum must be issued having no date of first production and commenting that a final paying well determination is pending. Once the final determination is made, a subsequent memorandum indicating a date of first production or a negative paying well determination must be submitted. A memorandum does not have to be issued for a well determined not to be capable of producing leasehold substances in paying quantities unless royalties are due for test production. A memorandum issued for test production only contains comments to the effect that the well is not capable of production in paying quantities but that test royalties are due.

G -

gross production income: all income received from the sale of leasehold production, that is, total sales value.

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- P -

primary term: as interpreted, the Mineral Leasing Act Revision of 1960 provides two definitions of the phrase "primary term."

1. The phrase "primary term" as used in Section 4(d) of the Mineral Leasing Act Revision of 1960 covers the entire period in the life of the lease prior to the period of extension because of production. This definition is applicable to all leases issued prior to September 2, 1960, and such leases may be extended numerous times by drilling pursuant to guidelines contained in this Handbook Section if there has been no extension because of production.

2. The phrase "primary term" as used in Section 17(e) of the Mineral Leasing Act Revision of 1960 means the initial 10-year term of a noncompetitive lease and the initial 5-year term of a competitive lease, no more and no less. This definition applies to all leases issued on or after September 2, 1960. Therefore, these leases are entitled to only one 2-year extension for drilling operations commenced prior to the end of the primary term, which would be the initial 5- or 10-year term of the lease, as appropriate.

production in paying quantities: production from a lease of oil and/or gas of sufficient value to exceed direct operating costs and the cost of lease rentals or minimum royalty.

- S -

shut-in well: a well that is considered by the operator and the BLM authorized officer to be physically and mechanically capable of producing oil and/or gas in paying quantities, but is not in production because of the lack of a market due to well's remoteness or as a result of problems that require remedial action.

T -

temporarily abandoned well: a well that is no longer capable of producing oil and/or gas in paying quantities and awaits a decision to be plugged and abandoned, worked over (deepening or plugging back the well) to restore production in a new interval or to convert the well to service use, or to retain as possible useful should enhanced recovery operations be initiated.

termination: the end of a lease for failure to timely pay rentals on or before the anniversary date when due. Use of this word also is appropriate for leases continued by production and where such production is deemed to have ceased because the lease is no longer capable of producing in paying quantities and reworking or redrilling operations are not timely commenced. Both in common usage and in case law, the word "termination" often is used interchangeably with the word "expiration". (See the definition for "expiration," above.)